

# Highlights for FY2005

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This is a translation of materials used for the analyst meeting held in Japan on April 24, 2006.

These presentation materials are available on our website in PDF format:

<http://www.kao.co.jp/en/ir/analystmtg/index.html>

These presentation materials contain forward-looking statements that are based on management's estimates, assumptions and projections as of April 24, 2006. Some factors, which include, but are not limited to, the risks and uncertainty associated with the worldwide economy, competitive activity, fluctuations in currency exchange and interest rates, could cause actual results to differ materially from expectations.

# Agenda

✧ **Summary of FY2005**

✧ **Growth Strategies**

✧ **FY2006 Forecast**

# Summary of FY2005

# FY2005 Financial Overview

***FY2005: A year of proactive investment for future growth***

		<u>Year-on-year</u>
✧ Net sales:	¥971.2 billion	+3.7%
✧ Operating income:	¥120.1 billion	-1.0%
✧ Ordinary income:	¥121.9 billion	-2.7%
✧ Net income:	¥71.1 billion	-1.4%
✧ EBITDA:	¥180.8 billion	+1.5%
✧ ROE:	14.9%	-16.0 bps
✧ Net income per share:	¥130.58	-0.4%
✧ Shareholder returns:		

Excluding Kanebo Cosmetics  
related impact

	<u>Year-on-year</u>
¥971.2 billion	+3.7%
¥122.9 billion	+1.3%
¥125.0 billion	-0.2%
¥72.9 billion	+1.1%
¥181.0 billion	+1.6%

- Cash dividends per share: ¥50 (+12 yen year-on-year, payout ratio 38.3%)
- Share repurchases: ¥5.0 billion or 2.0 million shares

# Growth Strategies

# Growth Strategies

*Profitable growth driven by high-value-added products*

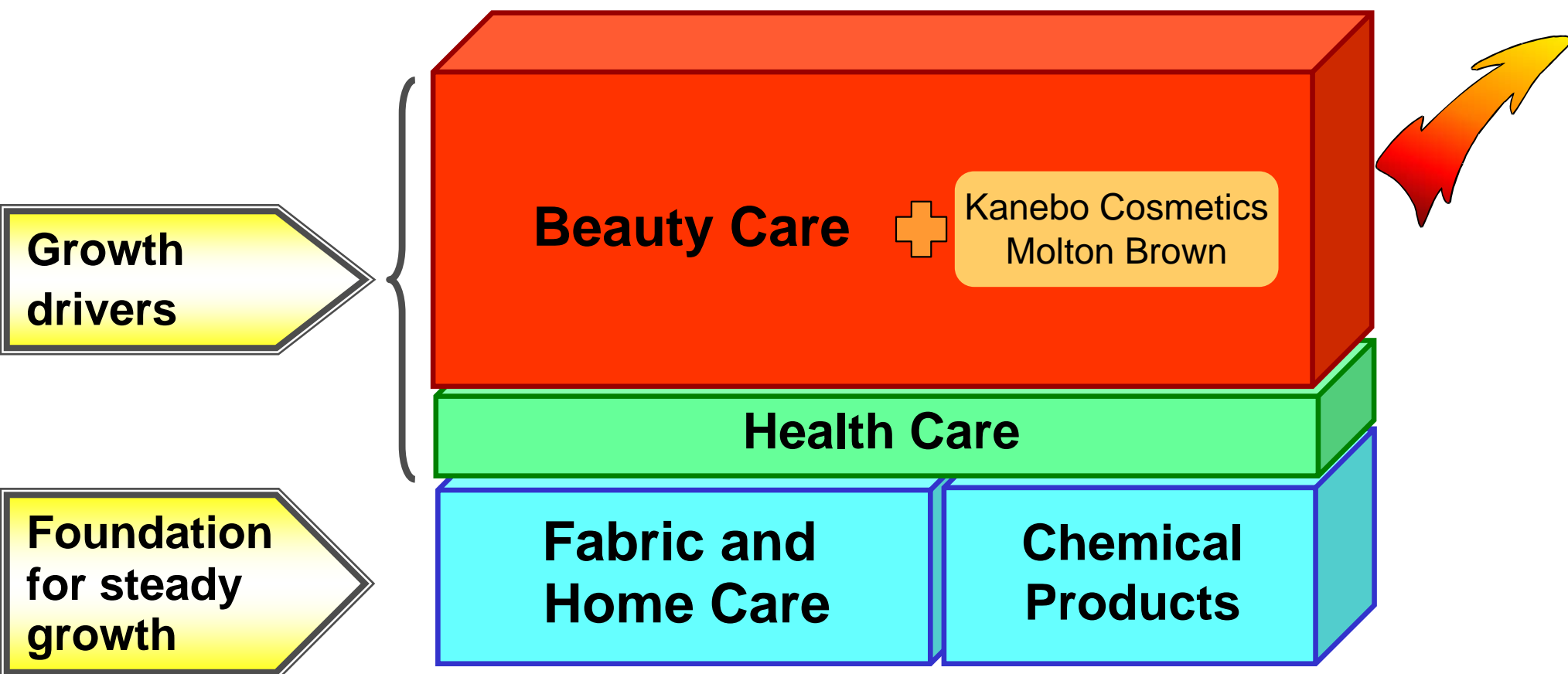


**Accelerate growth in the business areas of Beauty Care and Health Care\***

- ✧ **Further strengthen and develop Fabric and Home Care, a core business**
- ✧ **Further enhance the Chemical Products business globally and locally with distinctive products that meet customer needs**

\*The scope of "Health Care" does not include pharmaceuticals.

# Growth Strategies















(FY2006 estimate)

<i>Business areas</i>	Beauty Care	➡	Global
	Health Care	➡	Potential for global expansion
	Fabric and Home Care	➡	Japan and Asia
	Chemical Products	➡	Global






# Globalization of Beauty Care

*We strive for the wholehearted satisfaction of consumers globally through our brands with concepts that respond to diverse values regarding beauty.*

	Japan	North America and Europe	Asia
Professional Hair Care			
Counseling & Self-Selection Cosmetics	 	 	 
Premium Personal Care			

# Major Cosmetics Brands in Japan

		Department stores	Drugstores and GMS	Specialty stores
Counseling	High-Prestige	 <b>R M K</b> <b>LUNASOL</b>		<b>TWANY</b> <b>LISSAGE</b>
	Prestige		 <b>Kanebo</b> <small>FEEL YOUR BEAUTY</small>	 <b>Kanebo</b> <small>FEEL YOUR BEAUTY</small>
Self-Selection	Mass		<b>Kanebo</b> <small>FEEL YOUR BEAUTY</small>	<b>Kanebo</b> <small>FEEL YOUR BEAUTY</small>

# How to Generate Synergy in the Cosmetics Business

***Top priority: Enhance value of each brand***

## Nine synergy committees

	IT		Accounting and Finance		Personnel and Administration
R&D					
Marketing					
Sales					
International operations					
Production/procurement					
Logistics					

# Generating Synergy in the Cosmetics Business in FY2006

***Top priority: Enhance value of each brand***

## ***Top-line growth***

- ◆ Reinforce R&D/product development capabilities
- ◆ Strengthen ability to offer retailers comprehensive proposals
- ◆ Accelerate global expansion

## ***Optimization***

- ◆ Cost savings
  - ✓ Raw materials
  - ✓ Advertising
- ◆ Mutual utilization of production sites
- ◆ Initiatives for joint delivery

**FY2006 forecasts**

- Net Sales: ¥ 290 billion
  - ↳ Approximately 25% of Consolidated Net Sales
- EBITA: Approximately 10%

# Funds for the Kanebo Cosmetics Acquisition and Our Financial Policy

Initially funded  
by bridge loans

## Refinance

In addition to the syndicate loan and life insurance company loans executed in March 2006, we will refinance the remainder with internal capital resources, funds raised from financial markets, etc.

## Use of Cash Flow

- For future growth
  - 1) Capital expenditures
  - 2) M&A
- Share repurchase as part of shareholder returns

# Expansion of Health Care Business

Business area  
with growth  
potential

- A category for the health conscious
  - Functional foods
  - Non-pharmaceutical health support products (blood circulation improver, etc.)



Existing  
business

- *Econa Healthy Cooking Oil*
  - ⇒ Reinforce brand power
  - ⇒ Business development of *Enova* oil in North America



- *Healthya drink*
  - ⇒ Revitalize brand with *Healthya Water* sports drink

New business

- *Megurism Steam Thermo Power Pad*



*Further growth of Health Care  
business supported by R&D*

# Toward Accomplishment of Growth Strategies

## Work Process Innovations

- Build a system to create high-value-added products
  - ➡ *Develop new marketing and product development technique  
(Balance between functional value and emotional value )*
- Establish a global management system
  - ➡ *An innovative management system that clearly defines  
the roles of operations in Japan and in other countries*
    - ↳ *Integration of business operations in Asia,  
including Japan*
    - ↳ *Asian Supply Chain Project*

## Reinforcement of R&D

- Matrix management between product development research and fundamental research

# Integration of Business Operations in Asia, Including Japan

## Case Study: Rollout of *Asience* hair care line in Taiwan and Hong Kong



Billboard advertising in Hong Kong



In-store display in Taiwan

### Product development

- Brand design that took business development in Asian region into consideration from the beginning

### Sales and marketing

- Build a win-win relation with retailers
- Collaboration among local subsidiaries and Japan in marketing
  - ⇒ *Japan: Master planning*
  - ⇒ *Local subsidiaries: Consumer acceptance studies and advertising/sales planning*



# FY2006 Forecast

# FY2006 Forecast

***Generate greater cash flow to fuel growth***

		<u>Year-on-year</u>
✧ Net sales:	¥1,210.0 billion	+24.6%
✧ Operating income:	¥120.0 billion	-0.1%
✧ Ordinary income:	¥118.0 billion	-3.2%
✧ Net income:	¥72.0 billion	+1.2%
✧ EBITDA:	¥207.0 billion	+14.4%
✧ ROE:	13.5%	-14.0 bps
✧ Net income per share:	¥132.12	+1.2%
✧ Shareholder returns:		
➤ Cash dividends per share:	¥52	
	(+2 yen year-on-year, payout ratio 39.4%)	

<u>Excluding Kanebo Cosmetics related impact</u>	
	<u>Year-on-year</u>
¥1,010.0 billion	+4.0%
¥125.0 billion	+1.7%
¥126.0 billion	+0.8%
¥73.5 billion	+0.7%
¥185.0 billion	+2.2%